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RUEHBY/AMEMBASSY CANBERRA 3286
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RUEHKO/AMEMBASSY TOKYO 2723
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C O N F I D E N T I A L SECTION 01 OF 03 JAKARTA 002095

SIPDIS

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TAGS: [PGOV](#) [EIND](#) [KDEM](#) [KCOR](#) [ID](#)
SUBJECT: DEFENSE REFORM -- GOI CONTINUES EFFORT TO
DISENTANGLE MILITARY FROM COMMERCIAL ENTERPRISES

REF: JAKARTA 589 AND PREVIOUS

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Classified By: Pol/C Joseph L. Novak, reasons 1.4(b+d).

11. (C) SUMMARY: A national review team recently developed recommendations for President Yudhoyono on removing military-related businesses from military cooperatives and foundations. The completion of this phase in the review effort nudges Indonesia a step closer to completing this long-awaited reform by the statutory deadline of October 12009.

12. (C) SUMMARY (Con'd): Considerable work remains, however. President Yudhoyono must approve a way forward. In addition, momentum in this key reform area needs to be maintained with an eye to eventually removing the armed forces from commercial enterprises completely so they can focus exclusively on their military mission. END SUMMARY.

ANNOUNCING RESULTS OF REVIEW

13. (SBU) The GOI continues to grapple with the issue of military involvement in commercial enterprises. The most recent phase of a multi-year effort to rid the Indonesian military of its commercial activities concluded on November 4 with a major press conference at the Department of Defense. A national team composed of civilians and military officials under the leadership of Erry Riyana Hardjapamekas (a respected financial expert and civil servant; see bio note in reftel) completed a review of military-related businesses and the cooperatives and foundations to which they are attached and issued a set of recommendations for President Yudhoyono on next steps.

14. (SBU) A Steering Committee under Defense Minister Juwono

Sudarsono reviewed the options presented and reportedly sent a recommendation on its favored way forward to the president on November 5. The ball is now in the president's court. This is the latest in a long series of national teams that have over the past two years inched the reform effort steadily forward. The statute that mandated the reform--Law 34 of 2004--set a deadline of October 16, 2009, for its completion. Much work remains to be done to meet this deadline.

AN INVENTORY

15. (SBU) The team collected a great deal of data. According to its review, there were 23 TNI-related foundations, with 53 associated enterprises; 1,098 cooperatives, with two associated enterprises and various uses of TNI property, both land and buildings, for the benefit of third parties or for profit. The gross value of the foundations and cooperatives at the end of 2007 was determined to be 3.2 trillion rupiah, or about \$320 million. The team determined that the cooperatives constituted a part of the TNI organizational structure to the point that active-duty soldiers were involved in the running and supervision of the cooperatives. Of the 8,493 personnel employed by the cooperatives, 3,523 (over 40 percent), were soldiers.

16. (SBU) The team determined that the amount of military property involved in commercial use by or of benefit to third-parties was extensive: 16,545 hectares of land and 8,436 hectares of real estate. Commercial use of land and buildings for the benefit of third parties included:

-- parks, ponds, mines, golf courses, markets and stores,

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factories, offices, storage facilities, animal husbandry, meeting halls, gas stations, automobile showrooms, restaurants, hotels, television relay stations, mosques, public roads, hospitals and clinics, primary, secondary and tertiary educational institutions and residential units and complexes.

TEAM PREFERS U.S. MODEL

17. (C) The team set out suggested next steps. Its press release outlined three options (which are reviewed in detail in para 11). Sudarsono told the press, however, that he forwarded only one recommendation to President Yudhoyono. Hardjapamekas told Regional Security Unit Chief that the second of the three was the team's preferred recommendation and that this was reportedly the favored approach of Sudarsono. The second option laid out the creation of a PX system based on the U.S. model (where services are farmed out to civilian contractors).

18. (SBU) The military is being cooperative. TNI Commander Djoko Santoso told reporters on November 4 that he would support the Team's recommendations in principle and was concerned only that the transformation not create new problems for the average soldier. Navy Chief Admiral Tedjo Edhy Purdijatno and other military commanders were supportive, but voiced concern that the soldiers' welfare be kept in view during the transition. He called for compensation of lost income from the treasury

A LONG-TERM EFFORT

19. (C) The review team's efforts were constructive, but at this point there is still a long way to go. President Yudhoyono must approve a way forward in the specific area of removing military-related businesses from military cooperatives and foundations. In addition, momentum in this key reform area needs to be maintained with an eye to eventually removing the armed forces from commercial enterprises completely so they can focus on their military mission exclusively.

¶10. (C) All indications are that the Yudhoyono administration, the Indonesian body politic and the military (to a great extent) remain committed to the effort. Compared to ten years ago, the military is already dramatically less of a political, economic and social presence in the daily lives of Indonesians, but that momentum needs to continue.

MORE ON THE THREE OPTIONS

¶11. (SBU) Additional information on the review team's three options follows:

-- Option One. Defines genuine cooperatives ("primary cooperatives") as those that meet genuine welfare needs of soldiers by supplying basic foodstuffs and necessities, particularly in more remote areas. It notes that law 34 of 2004 identified these cooperatives as necessary to preserve during the transition to a professional army. Recommends, however, that cooperatives not be run and staffed by active-duty soldiers. All other would-be cooperatives are to be regarded as business enterprises and wound up. Cooperatives and foundations are to be shorn of all commercial activities. Welfare foundations are to be transferred to the Department of Defense and put on a proper administrative footing or liquidated altogether. Foundations providing tertiary education are to be brought into

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conformity with existing regulations and subordinated jointly to the Department of Education and the Department of Defense.

Foundations offering primary and secondary education would be placed under the Department of Defense. Property and real estate that is not needed to fulfill basic defense functions should be transferred to the Minister of Finance to dispose of as the chief administrator of public properties. Property and real estate used for the benefit of third parties should be put on a proper legal footing and all profits transferred to the national budget. In the case of health facilities providing service to both military personnel and the public, appropriate revenues should be transferred to the national budget.

-- Option Two. Recommends the creation of a special unit under the Department of Defense to manage the "primary cooperatives." Recommends basing this on the Post Exchange (PX) system used by the U.S. military. Notes that this would effectively remove active-duty soldiers from the running of cooperatives and advance the creation of a professional military.

-- Option Three. Simply transfers TNI cooperatives and foundations to the respective administrative units under the Department of Defense. A legal audit and a financial audit must precede this step. Notes this would only be a halfway reform and could only be a temporary step, since a goal of good governance is to remove all foundations and cooperatives from ministerial administration. In the future, all foundations and cooperatives under the Department of Defense must be liquidated and their proceeds contributed to the state treasury.

HUME